

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4831-04
Bill No.: SCS for SB 884
Subject: State Attorney General; Department of Revenue; Tobacco Products
Type: Original
Date: April 6, 2010

Bill Summary: The proposal amends various provisions of the Tobacco Master Settlement Agreement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$220,919	\$455,092	\$468,746
Total Estimated Net Effect on General Revenue Fund	\$220,919	\$455,092	\$468,746

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Tobacco Control Special*	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds*	Unknown	Unknown	Unknown

*Costs of \$379,871 for FY11, \$194,008 for FY12 and \$200,651 for FY13 are expected to be paid with collection of disgorgements, penalties, and fees to be deposited to the fund.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(2)	(4)	(4)
Tobacco Control Special	4	4	4
Total Estimated Net Effect on FTE	2	0	0

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Administrative Hearing Commission, – Division of Budget and Planning, Department of Public Safety – Director’s Office, – Division of Alcohol and Tobacco Control, Office of the State Public Defender,** and the **Office of the State Treasurer** assume the proposal would have no fiscal impact on their agencies.

Officials from the **Office of State Courts Administrator** assume the proposed legislation would have no fiscal impact on the courts.

Officials from the **Office of the Attorney General (AGO)** state, due to the staffing requirements of the current tobacco-related national arbitration, officials from the AGO do not initially anticipate a savings under this proposal. However, assuming the arbitration case concludes in FY 11, AGO anticipates a savings in FY11 of 2 FTE Assistant Attorneys General III (at \$55,000 each) for a savings of \$179,478, due to the enhanced tools provided to the AGO to enforce the escrow requirements under the current law.

In FY 12, AGO anticipates a savings of an additional 2 FTE Assistant Attorneys General III (at \$55,000 each) for additional savings of \$218,530 in FY12.

In the years thereafter, AGO anticipates no additional savings.

Officials from the **Department of Corrections (DOC)** assume the penalty provision, the component of the bill to have potential fiscal impact for DOC, is for a class A misdemeanor.

DOC cannot currently predict the number of new commitments which may result from the creation of the offense(s) outlined in this proposal. An increase in commitments depends on the utilization by prosecutors and the actual sentences imposed by the court.

If additional persons are sentenced to the custody of the DOC due to the provisions of this legislation, the DOC will incur a corresponding increase in operational cost through supervision provided by the Board of Probation and Parole (FY09 average of \$3.71 per offender per day, or an annual cost of \$1,354 per offender).

ASSUMPTION (continued)

In summary, supervision by the DOC through probation would result in some additional costs, but it is assumed the impact would be \$0 or a minimal amount that could be absorbed within existing resources.

Officials from the **Department of Revenue (DOR)** assume to properly enforce the Master Settlement Agreement, the following tasks must be done:

DOR assumes Excise Tax would require two FTE Revenue Processing Technicians I (each at \$25,380 per year) to receive, record, monitor and compile the reports of all cigarettes sold in Missouri.

DOR assumes the Criminal Investigation Bureau would require two FTE Field Investigators II (each at \$43,344 per year) to enforce the non-participating manufacture statutes. A great deal of investigation must be done to ensure all manufacturers and brand families are correctly certified and that all payments have been made. This would include verification of bank records and the ability to determine the true identity of a product manufacturer. Field investigators would be vital to enforce this law. Continual inspections of wholesalers and retailers will need to take place to make appropriate seizures. The increased field activity would create additional work for the DOR's registration area to suspend or revoke licenses of any wholesaler in possession of products deemed to be contraband.

DOR assumes they would incur Unknown costs for serving papers in foreign countries.

In summary, DOR assumes a need for 4 FTE at a cost of \$407,957 in FY 2011, \$229,520 in FY 2012, and \$236,406 in FY 2013.

Oversight has, for fiscal note purposes only, changed the starting salary for these FTE to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight assumes the FTE will be housed within existing DOR facilities, so no floor space expenses are included.

Oversight assumes the Department of Revenue's increased costs would be paid from the Tobacco Control Special Fund, as established in the proposal.

Oversight assumes the income from disgorgements, penalties, and fees will exceed the Department of Revenue costs.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS) – Administrative Rules Division** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this proposal for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

Officials from the **SOS – Business Services Division** state, information received from the Office of the Attorney General indicates that the number of services for which the SOS would be deemed the agent for service of process would be approximately 12 per year. Based on these numbers, the SOS will absorb the cost of processing these services of process.

Officials from the Office of Prosecution Services did not respond to Oversight's request for fiscal impact.

The proposal could increase Total State Revenue by increasing penalties collected.

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
---	---------	---------	---------

GENERAL REVENUE FUND

Savings – Office of the Attorney General

Personal Service	\$113,300	\$233,398	\$240,400
Fringe Benefits	\$59,415	\$122,394	\$126,066
Equipment and Expense	\$48,204	<u>\$99,300</u>	<u>\$102,280</u>
<u>Total Savings – AGO</u>	<u>\$220,919</u>	<u>\$455,092</u>	<u>\$468,746</u>
FTE Change – AGO	(2) FTE	(4) FTE	(4) FTE

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

	<u>\$220,919</u>	<u>\$455,092</u>	<u>\$468,746</u>
--	-------------------------	-------------------------	-------------------------

Estimated Net FTE Change for General
Revenue Fund

(2) FTE	(4) FTE	(4) FTE
---------	---------	---------

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
(continued)			

TOBACCO CONTROL SPECIAL FUND

<u>Income</u> – Collection of disgorgements, penalties, and fees	Unknown	Unknown	Unknown
<u>Costs</u> – Department of Revenue (DOR)			
Personal Service	(\$100,652)	(\$124,405)	(\$128,138)
Fringe Benefits	(\$52,782)	(\$65,238)	(\$67,196)
Equipment and Expense	<u>(\$226,437)</u>	<u>(\$5,162)</u>	<u>(\$5,317)</u>
<u>Total Costs</u> – DOR	<u>(\$379,871)</u>	<u>(\$194,805)</u>	<u>(\$200,651)</u>
FTE Change – DOR	4 FTE	4 FTE	4 FTE

ESTIMATED NET EFFECT ON TOBACCO CONTROL SPECIAL FUND*

	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
Estimated Net FTE Change for Tobacco Control Special Fund	4 FTE	4 FTE	4 FTE

* The income from disgorgements, penalties and fees is expected to exceed the DOR costs.

<u>FISCAL IMPACT - Local Government</u>	FY 2011	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses involved in the sale of cigarettes or tobacco products may be administratively impacted by the provisions in the proposed legislation.

FISCAL DESCRIPTION

The proposed legislation requires all tobacco manufacturers whose cigarettes are sold in Missouri to report and certify to the Department of Revenue and the Attorney General's Office by April 30 of each year that they are in compliance with the Tobacco Settlement Model Statute currently in Missouri law. In addition to the certification, manufacturers must also provide a list of "brand families." Non-participating manufacturers must provide the number of units sold for each family for the preceding year, the name and address of any other manufacturer of their brand families in the preceding or current calendar year, and other information to verify compliance with the model statute in their certification. All manufacturers must update their lists thirty days prior to any addition to or modification of its brand families through a supplemental certification to the director of the Department of Revenue.

In addition to other certification requirements, each non-participating manufacturer must be registered to do business in the state or maintain an agent within the state for the purpose of service of process relating to the enforcement of the act. By January 1, 2011, the director of the Department of Revenue must issue, maintain, update, make available for public inspection, and publish on the department's web site a list of all tobacco product manufacturers that have satisfied the certification requirements established in the act.

The director of the Department of Revenue and the Attorney General are allowed to share information on tobacco sales in the state to implement and enforce the provisions of the act.

Stamping agents (persons authorized to affix cigarette tax stamps to cigarette packages) are required to submit to the director an e-mail address for the receipt of notifications as required by the bill and to submit various reports and documents as required by the department.

Various penalties and actions for failure to comply with the requirements of the act are included.

The proposal contains an emergency clause, and would be in full force and effect upon its passage and approval.

This legislation is not federally mandated, would not duplicate any other program, and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Attorney General
Office of Administration

- Administrative Hearing Commission
- Division of Budget and planning

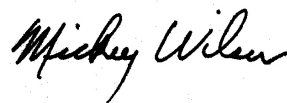
Office of State Courts Administrator
Department of Corrections
Department of Revenue
Department of Public Safety

- Division of Alcohol and Tobacco Control
- Director's Office

Office of the Secretary of State
Office of the State Public Defender
Office of the State Treasurer

NOT RESPONDING

Office of Prosecution Services



Mickey Wilson, CPA
Director
April 6, 2010